



PORS Presentation

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**SC Budget and Control Board
South Carolina Retirement Systems**

Peggy G. Boykin, CPA, Director

PORS Is Actuarially Sound

- PORS is actuarially sound.
- PORS has an unfunded liability of \$1 billion which will be funded over a 30-year period with a portion of the employer contribution.
- PORS has money on hand to pay current benefits as well as a funding plan in place to pay future benefits promised to members who are not yet eligible to retire.
- Due to retiree cost-of-living adjustments, however, the system has reached the maximum funding period allowed by governmental accounting standards which leaves little funding flexibility.

How PORS Is Funded

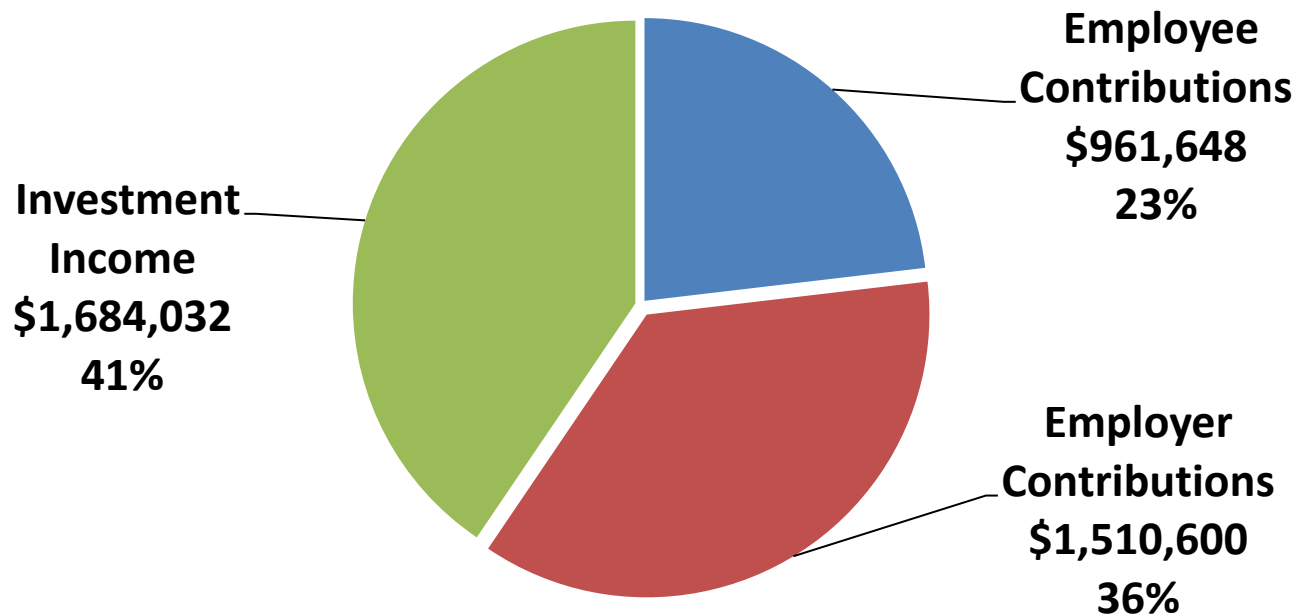
- PORS will continue to remain actuarially sound as long as:
 - All contributions are made (from working retirees, employees and employers); and
 - All actuarial assumptions, including investment performance, are met over the life of the plan.
- Not meeting these assumptions would not necessarily make PORS actuarially unsound, but would most likely increase the unfunded liability of the plan which would require contribution increases.

PORS Funding 1990-2009

Police Officers Retirement System (PORS)

Revenue to Trust Funds over 20-Year Period

Dollar Amounts in Thousands



Primary Driver of Unfunded Liability

- The most significant driver of growth in the PORS unfunded liability has been retiree cost-of-living adjustments.
- There are two ways to fund COLAs: Ad hoc and pre-funded.
 - Ad hoc means you give COLAs when the plan can afford them, but you don't plan for, or pre-fund, them. This is the most expensive way to provide a COLA. Commonly called “pay as you go.”
 - Pre-funded COLAs mean you expect to provide them in the future and have established a means of paying for them. This is the least expensive way to provide a COLA.

The Number of PORS Retirees Has Increased Dramatically

Year	Active PORS Members	Total PORS Retirees	Rehired Working PORS Retirees
1999	23,127	5,925	
2000	24,782	6,322	
2001	24,821	6,970	
2002	23,963	7,706	
2003	23,871	8,427	
2004	23,734	9,056	1,038
2005	23,795	9,661	1,221
2006	24,813	10,134	1,829
2007	25,645	10,701	1,519
2008	26,427	11,286	1,716
2009	26,598	11,950	1,915

**Data not available on rehired retiree numbers earlier than 2004.*

Dollar amounts are expressed in millions.

Valuation Year	COLA Amount	COLA In Dollars/Years		Other * In Dollars/Years		Amortization Period In Dollars/Years		
1999						\$53.7	5.0	
2000	Timing change regarding actuarial recognition of COLAs			\$33.7	1.9	\$87.4	6.9	
2001	3.4% ad hoc	\$32.1	3.0	\$6.8		\$126.3	9.9	↑ UAL
2002	1.3% ad hoc	\$12.7	1.0	\$37.8	4.0	\$176.8	14.9	↑ UAL
2003	2.4% ad hoc	\$27.3	2.0	\$29.4	(6.0)	\$233.5	10.9	↑ UAL
2004	1.6% ad hoc	\$20.2	1.2	\$114	3.9	\$367.7	16.0	↑ UAL
2005	3.4% ad hoc	\$50.3	2.0	(\$18.7)	(3.0)	\$399.3	15.0	↑ UAL
2006	3.5% ad hoc	\$57.4	2.6	\$73.7		\$530.4	17.6	↑ UAL
2007	2.4% ad hoc	\$42.9	1.8	(\$3)	(3.1)	\$570.3	16.3	↑ ER Rate
Subtotal of ad hoc COLAs since 2000		\$242.9	13.6					
2008	2% automatic	\$683.3	15.0	(\$297.8)	(1.4)	\$955.8	29.9	↑ ER Rate
2009	No COLA	(\$48.3)	(2.4)	\$174.4	2.5	\$1,081.9	30.0	↑ ER Rate

UAL = Unfunded Actuarial Liability

ER Rate = Employer Contribution Rate

***Refers to other gains and losses aside from those related to COLAs**

2008 Legislation Resulting from COLA Task Force Recommendations

- The 2 percent PORS COLA was funded by several sources:
 - Increasing the unfunded liability amortization period to approximately 30 years;
 - Using expected investment returns (at 8 percent rate of return); and
 - Increasing the employer contribution rate by .48 percent, which was required to keep the system within the 30-year ceiling.

Global Economic Circumstances

- Unprecedented economic collapse in 2008
- Five-year investment return ended 6/30/10 is 1.48 percent.
- In the short term, investments have not funded COLAs as intended. However, a 10 year smoothing of returns allows time for market recovery and the potential offsetting of losses with future gains.
- Since implementation of the Investment Commission in 2005, performance of the S.C. Retirement Systems' portfolio has improved from being in the bottom 10 percent to being in the top 25 percent among other state retirement plans which are considered our peers.

PORS Employer Contribution Rates

Effective Date	PORS Rate	Explanation
July 1, 2007	10.300%	
July 1, 2008	10.650%	1.4% ad hoc. SC Budget and Control Board decision to not increase the amortization period.
July 1, 2009	10.650%	
July 1, 2010	11.130%	2% automatic COLA
July 1, 2011	11.363%	Market downturn
July 1, 2012	11.595%	Market downturn

Going Forward

- The General Assembly will decide whether to remove COLAs or to keep COLAs which may require passing the cost on to employees and employers or making amendments to the plan.
- A combination of these options would allow the plans to pay off the unfunded liability earlier, similar to making additional payments on a home mortgage to pay off the loan sooner.
- The General Assembly will have to balance paying off the PORS unfunded liability faster with the need of employers to balance their budgets during difficult economic times.

Going Forward

- Several factors may impact the funding of PORS going forward.
 - If the Board reduces the expected rate of return from 8 percent, automatic COLAs will be eliminated.
 - If the General Assembly changes the benefit structure of PORS, such changes could help to improve the unfunded liability.
 - The potential loss of a pending lawsuit regarding contributions from members who are receiving benefits while also earning compensation from employment would negatively impact the funding of the system.

Going Forward

- Under current law, if the rate of investment return is reduced, automatic COLAs will be eliminated and the awarding of COLAs will be done ad hoc as done prior to the 2008 legislation.
- New legislation could be passed to provide an annual 1 percent COLA with ad hoc restraints or COLAs could be awarded ad hoc until the system reaches the 30-year amortization period.
- Eliminating the automatic COLAs and reducing the rate of return improves PORS' funding status if you assume no future COLAs will be provided.
- Employer contributions could possibly be decreased if no future COLAs are granted.

Effects of Reducing Rate of Return

	(8.00%) 2009 Valuation	7.75% No COLA	7.50% No COLA
UAAL	\$1,081,891	\$493,243	\$601,140
Funded Ratio	76.3%	87.6%	85.3%
Amortization Period (Years)	30	9	13
Normal Cost Contribution	7.04%	5.62%	6.24%
UAAL Contribution	4.09%	5.03%	4.41%
ID & AD Contribution	<u>0.40%</u>	<u>0.40%</u>	<u>0.40%</u>
Total Employer Contribution	11.53%	11.05%	11.05%

All dollar amounts are in thousands.

Possible Benefit Changes

- Increasing required years of service for retirement
- Increasing the number of years used to calculate a member's average final compensation from three to five
- Eliminating the use of sick leave, annual leave, and overtime pay in the calculation of a member's average final compensation
- Using the actuarial cost for service purchases
- Enacting anti-spiking legislation
- Applying an annual earnings limitation to retirees who return to work
- Decreasing or eliminating the rate of interest on inactive member accounts
- Forcing the escheatment/forfeiture of inactive member accounts after some period of time

Legal Considerations

- Court cases were filed following passage of legislation in 2005 requiring retired members who return to covered employment to make employee contributions.
- The working retiree portion of this case was remanded to a lower court for adjudication. The Supreme Court heard the case 11/3/10.
- If the plaintiffs prevail, the unfunded liability of PORS could increase by \$14.9 million; the amortization period could increase by 1.9 years; and a contribution increase of 0.21 percent would be required to keep the amortization period at the 30-year ceiling.

Legal Considerations

- In August 2010, a lawsuit was filed in federal court on behalf of eight working retirees and they are requesting class action status. This case represents significant potential liability as well if the Retirement Systems does not prevail.